

Positive surprises to continue, Retain BUY, prefer DVR

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Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs1,144	Rs1,520
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,450
Sensex	18,168

Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	(10)	8	49
Rel. to Nifty	(3)	(3)	15	40

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	TTMT@IN
Equity Capital (Rs mn)	5372
Face Value (Rs)	10
No of shares o/s (mn)	537
52 Week H/L (Rs)	1,381/670
Market Cap (Rs bn/USD mn)	614/13,553
Daily Avg Vol (No of shares)	3741014
Daily Avg Turnover (US\$ mn)	98.4

Shareholding Pattern (%)

	Dec 10	Sep 10	Jun 10
Promoters	34.9	37.0	37.0
FII/NRI	43.2	36.4	35.3
Institutions	13.7	17.5	18.3
Private Corp	0.4	0.7	0.7
Public	7.8	8.4	8.7

Source: Capitaline

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- **Demand outlook remains strong across segments. Expect 10% to 15% growth in M&HCV trucks (our est is 9%), <10% growth in buses and 20% volume growth in LCVs in FY12**
- **LR continues to drive profits at JLR. However, Jaguar has also started contributing to profits. Profitability will improve with higher share of new models in sales**
- **Benefits of low hanging fruits almost exploited at JLR but there are adequate levers both short term and long term that should provide cushion to margins**
- **Retain our FY12 EPS of Rs 166, Maintain BUY with a TP of Rs1,520. Prefer DVR as it is at steep disc. of 45% to ordinary shares, trades at 1.3x FY12 P/B offers 4.8% div. yield (FY11E)**

Sales and Service network

Currently, TML has around 250 dealers for passenger vehicles (PV) as well as commercial vehicles (CV) in India. The focus with respect to PV is rural India/tier II/tier III cities. The objective is to take Nano in the interiors. Service network is ~ 1000 for PV and CV each. Nano has a separate service network of ~ 1000 with the opening of all India level sales for Nano

Nano – financing

The target customer profile is 60% customers who own a two wheelers, 10% who neither own two wheelers or cars and 30% urban India. Company has tied up with 21 banks for providing loan to Nano customers. However, there is some resistance in terms of rate of interest offered as bankers are asking for rate of 16% to 18% where as the TML intends that customers should be charged interest rate slightly higher than for other cars owners (2% to 3% higher). It is also tying with various NBFCs. Expect Tata Motor Finance to take the lead (as was case Tata Ace was launched). The issues are similar that TML faced at the time of launch of Ace

M&HCVs – market share loss in recent months

Currently market share is around 60%. The focus is to maintain market share around 60% to 65% range. Market share based on wholesales billings can fluctuate on short term basis based on inventory strategies adopted by various players.

Sharp drop in overall M&HCV sales

The drop in M&HCV sales is largely due ~35% drop in bus sales. Truck sales are strong (we concur with the view. In Feb 2011, Trucks grew by 18% YoY, 8% MoM). The drop in bus sales is due base effect of JNURM last year. Expect bus sales to remain sluggish for some more time.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/ BV
Mar										
FY09	713,843	33,409	4.7	(6,738)	(10.2)		(9.7)	(112.1)	31.5	14.5
FY10	924,130	74,183	8.0	10,751	16.3	(259.6)	15.8	70.2	13.4	9.0
FY11E	1,227,070	166,586	13.6	95,219	144.3	785.7	60.7	7.9	5.5	3.3
FY12E	1,380,672	188,548	13.7	109,753	166.3	15.3	40.4	6.9	4.9	2.4

Source: Company. Emkay Research

CVs – FY12 volume growth outlook

Expect M&HCV truck volumes growth of 10% to 15% (our est. is 9%). However, expect bus growth to remain below 10% driven by private bus operators. LCVs are expected to grow by 20% to 22% driven sub one ton segment. There is a huge potential for Ace and similar other products. Entry of new players will expand the market rather than eating into the market share.

Tata Fiat JV

Currently the capacity is 150,000 cars (50,000 for Tata Motors and balance for FIAT) and 300,000 engines. TML manufactures Indigo Manza and also Indica range. FIAT volumes are around 25,000 units which is a cause of concern. There are discussion to how to improve the utilization which includes export opportunities.

JLR – sharp increase in product development expenses in 3QFY11

In 3QFY11, lower capitalization of expenses is due to higher charge to P&L as certain expenses did not qualify for capitalization. This represents the actual expenses of the year and not the amortization of past expenses which will come under the heading of depreciation and amortization.

JLR – demand outlook

Demand outlook remains strong across most of the geographies. Expect US to grow by ~10%, EU region is expect to register a decline of ~2%. Expect China to grow atleast in single digit over next five years if not more. However, the demand for luxury car can be higher than the industry growth.

JLR - Profitability

Land Rover continues to be the key profit driver. However, jaguar profitability has improved. It was a loss making unit when acquired and now it contributes to the profitability. Expect the profitability to improve as and when the share of new products increases.

JLR – margins outlook

Most of the low hanging fruits (employee rationalization, national sales company rationalization, improvement in net realizable value of JLR products) have already appeared in the P&L. There are still levers available. The next round of benefits will come from new products (light weight architecture) which bring in enormous saving in terms of common platform for JLR, use of aluminum (better yield and cost management). In the near term there is still support to margins from higher outsourcing from LCC (currently ~24%) and higher production as there is minimal fixed cost involvement (labor cost) from increasing capacity from current capacity of 240,000 to 300,000 units (further upside of 5% to 10% in volumes).

Raw material pressures

There are pressures on metal cost and tyres apart from conversion costs. Expect industry should be able to pass on the cost pressures atleast to some extent. For JLR as the products are premium in nature, the impact of higher metal prices is relatively lower.

Valuations and View

At CMP of Rs 1,144, the stock trades at PER of 7.9 and 6.9 and EV/EBIDTA of 5.5 and 4.9 our FY11 and FY12 estimates respectively. We believe adverse currency swings as the only risk to our estimates. We retain our BUY rating on the stock with a TP of Rs 1,520 based on SOTP based valuations as indicated below. We would prefer DVR over ordinary share given the steep discount (~45%), higher dividend yield of 4.8% and attractive P/BV multiple of 1.3x our FY12 estimates.

Valuation Summary

	FY11E	FY12E
Volumes		
M&HCVs	207,982	229,676
LCVs	280,144	304,455
Cars	194,107	208,710
Nano	69,805	160,552
UVs	99,893	110,941
JLR	237,954	260,268
Total	1,089,886	1,274,602
Sales		
TML	474,217	538,697
JLR	690,362	772,295
Others (ex TMFSL)	50,811	55,304
Total	1,215,389	1,366,296
EBIDTA		
TML	51,368	54,797
JLR	102,098	118,673
Others (ex TMFSL)	6,741	7,952
Total	160,206	181,421
Target multiple		
TML	8.0	8.0
JLR	5.0	5.0
Others (ex TMFSL)	7.2	7.2
Target EV		
TML	410,943	438,375
JLR	510,490	593,363
Others	48,532	57,251
Total	969,965	1,088,989
Less: Net Debt (ex TMFSL)	82,248	88,780
Target MC	887,717	1,000,209
Share capital nos mn)	660	660
Value per share	1,345	1,515
Less MI	30	30
Add:TMFSL	30	35
Net Value per share	1,345	1,520

Source: Company, Emkay Research

Financials - Consolidated

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	713,843	924,130	1,227,070	1,380,672
Growth (%)	101.0	29.5	32.8	12.5
Expenditure	680,434	849,947	1,060,484	1,192,125
Materials Consumed	480,246	614,954	781,656	876,944
Employee Cost	72,974	87,518	86,348	95,357
Other Exp	127,213	147,475	192,480	219,824
EBITDA	33,409	74,183	166,586	188,548
Growth (%)	(17.2)	122.0	124.6	13.2
EBITDA margin (%)	4.7	8.0	13.6	13.7
Depreciation	25,068	38,871	40,481	46,067
EBIT	8,341	35,312	126,106	142,481
EBIT margin (%)	1.2	3.8	10.3	10.3
Other Income	7,990	7,352	2,165	2,623
Interest expenses	19,309	22,397	18,193	18,926
PBT	(2,978)	20,267	110,077	126,177
Tax	3,358	10,058	14,859	16,423
Effective tax rate (%)	(112.7)	49.6	13.5	13.0
Adjusted PAT	(6,336)	10,209	95,219	109,753
Growth (%)	(17.5)	(261.1)	832.7	15.3
Net Margin (%)	(0.9)	1.1	7.8	7.9
(Profit)/loss from JV's/Ass/MI	403	(542)	-	-
Adj. PAT After JVs/Ass/MI	(6,738)	10,751	95,219	109,753
E/O items	(18,323)	4,381	-	-
Reported PAT	(25,061)	15,131	95,219	109,753
Growth (%)	(29.6)	(259.6)	785.7	15.3

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	(10,968)	12,915	107,913	123,554
Depreciation	25,068	38,871	40,481	46,067
Interest Provided	19,309	22,397	18,193	18,926
Other Non-Cash items	(76,005)	(14,646)	-	-
Chg in working cap	53,452	43,790	(12,202)	(32,924)
Tax paid	(3,358)	(10,058)	(14,859)	(16,423)
Operating Cashflow	7,498	93,269	139,526	139,200
Capital expenditure	(532,309)	(36,217)	(90,167)	(103,833)
Free Cash Flow	(524,811)	57,052	49,359	35,367
Other income	7,990	7,352	2,165	2,623
Investments	336,155	(46,466)	-	-
Investing Cashflow	344,145	(39,114)	2,165	2,623
Equity Capital Raised	1,285	566	34,000	-
Loans Taken / (Repaid)	233,890	2,185	(30,000)	(30,000)
Interest Paid	(19,309)	(22,397)	(18,193)	(18,926)
Dividend paid (incl tax)	(3,646)	(10,019)	(22,205)	(25,594)
Income from investments	-	-	-	-
Others	(34,589)	54,784	-	-
Financing Cashflow	177,631	25,119	(36,398)	(74,521)
Net chg in cash	(3,035)	43,058	15,126	(36,531)
Opening cash position	38,332	41,213	87,433	102,559
Closing cash position	35,297	84,272	102,559	66,028

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	5,141	5,706	6,600	6,600
Reserves & surplus	47,901	78,270	223,314	307,473
Net worth	53,042	83,976	229,915	314,074
Minority Interest	4,030	2,135	2,135	2,135
Secured Loans	137,055	212,900	202,900	192,900
Unsecured Loans	212,684	139,023	80,098	60,098
Loan Funds	349,739	351,924	282,999	252,999
Net deferred tax liability	6,802	11,536	11,536	11,536
Total Liabilities	413,612	449,571	526,585	580,744
Gross Block	621,880	682,747	780,235	884,069
Less: Depreciation	332,691	344,135	384,616	430,683
Net block	289,190	338,612	395,619	453,385
Capital work in progress	105,330	80,680	73,359	73,359
Investment	12,574	22,191	22,191	22,191
Current Assets	326,860	425,296	523,805	577,597
Inventories	109,506	113,120	148,194	166,154
Sundry debtors	47,949	71,912	97,869	109,767
Cash & bank balance	41,213	87,433	102,559	66,028
Loans & advances	128,166	152,807	175,177	235,643
Other current assets	26	24	6	6
Current lia & Prov	321,202	417,208	488,389	545,789
Current liabilities	239,802	340,773	384,057	428,770
Provisions	81,400	76,435	104,332	117,019
Net current assets	5,658	8,088	35,416	31,809
Misc. exp	861	-	-	-
Total Assets	413,613	449,571	526,585	580,744

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	4.7	8.0	13.6	13.7
Net Margin	(0.9)	1.1	7.8	7.9
ROCE	5.2	9.9	26.3	26.2
ROE	(9.7)	15.8	60.7	40.4
RoIC	4.8	13.8	42.9	38.1
Per Share Data (Rs)				
EPS	(11.0)	17.6	144.3	166.3
CEPS	30.0	81.2	205.6	236.1
BVPS	85.4	137.4	348.3	475.9
DPS	5.1	14.1	28.9	33.3
Valuations (x)				
PER	(112.1)	70.2	7.9	6.9
P/CEPS	41.2	15.2	5.6	4.8
P/BV	14.5	9.0	3.3	2.4
EV / Sales	1.5	1.1	0.7	0.7
EV / EBITDA	31.5	13.4	5.5	4.9
Dividend Yield (%)	0.4	1.1	2.5	2.9
Gearing Ratio (x)				
Net Debt/ Equity	5.6	3.0	0.7	0.5
Net Debt/EBIDTA	9.0	3.3	1.0	0.9
Working Cap Cycle (days)	(42.1)	(61.5)	(41.0)	(40.4)

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances and exchange adjustments

Recommendation History: Tata Motors – TTMT IN

Date	Reports	Reco	CMP	Target
14/02/2011	Tata Motors Q3FY11 Conso Result Update	Buy	1,144	1,520
10/11/2010	Tata Motors Q2FY11 Conso Result Update	Buy	1,271	1,550
11/08/2010	Tata Motors Q1FY11 Result Update	Accumulate	957	1,140
28/05/2010	Tata Motors 4QFY10 Conso Result Update	Hold	743	810

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/03/2011	Eicher Motors Initiating Coverage	Accumulate	1,101	1,505
14/02/2011	Apollo Tyres Q3FY11 Result Update	Accumulate	51	58
09/02/2011	Mahindra and Mahindra Q3FY11 Result Update	Buy	654	830
07/02/2011	Motherson Sumi Q3FY11 Result Update	Accumulate	186	210

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